GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

DISTRICT OF COLUMBIA

NOT-FOR-PROFIT
HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER

Financial Statements
(with Independent Auditors' Report Thereon)
for the Period July 9, 2010 (Date of Inception)
to September 30, 2010

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 11-1-16HW **May 26, 2011**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

May 26, 2011

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Kwame R. Brown
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Brown:

In connection with the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2010, KPMG LLP (KPMG) submitted the enclosed final report on the Not-for-Profit Hospital Corporation's, d/b/a United Medical Center financial performance for the period July 9, 2010 (date of inception) to September 30, 2010 (OIG 11-1-16HW).

KPMG opined that the financial statements present fairly, in all material respects, the financial position of the Not-for-Profit Hospital Corporation as of September 30, 2010, and the results of its operations and its cash flows for the period from July 9, 2010, to September 30, 2010, in conformity with U.S. generally accepted accounting principles.

If you have questions or need additional information, please contact Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Financial Statements

September 30, 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

The Board of Directors
Not-For-Profit Hospital Corporation:

We have audited the accompanying balance sheet of the Not-For-Profit Hospital Corporation, d/b/a United Medical Center (the Medical Center), a component unit of the District of Columbia, as of September 30, 2010 and the related statements of revenues, expenses, and changes in net assets, and cashflows for the period from July 9, 2010 (date of inception) to September 30, 2010. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of September 30, 2010, and the results of its operations and its cash flows for the period from July 9, 2010 to September 30, 2010 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2011 on our consideration of the Medical Center's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 24, 2011

The following is a discussion and analysis of Not-for-Profit Hospital Corporation's, d/b/a United Medical Center (the Medical Center), financial performance for the period July 9, 2010 (date of inception) to September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, including the notes that follow the basic financial statements, which begin on page 15. All amounts are reported in whole dollars unless otherwise stated.

Overview of the Financial Statements

Management's discussion and analysis (MD&A) is intended to serve as an introduction to the Medical Center's basic financial statements. The Medical Center's financial statements consist of three statements: a Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

1. ***Balance Sheet*** - The Balance Sheet is designed to present information on all of the Medical Center's assets and liabilities, with the difference between the two reported as net assets. Assets and liabilities were reported at fair value on July 9, 2010, the date the assets and assumed liabilities were contributed to the Medical Center from the District of Columbia. The Balance Sheet also provides the basis for evaluating the capital structure of the Medical Center and assessing its liquidity and financial flexibility. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

2. ***Statement of Revenues, Expenses and Changes in Net Assets*** - The Statement of Revenues, Expenses and Changes in Net Assets present information showing how the Medical Center's net assets changed during the most recent period. This statement measures the Medical Center's operations over the period July 9, 2010 (date of inception) to September 30, 2010, and can be used to determine whether the Medical Center successfully recovered all of its costs through patient fees and other charges and is helpful in assessing profitability and credit worthiness. Activities are reported as either operating or non-operating activities. Operating revenues were generally earned by providing goods or services to various customers, patients and related parties. Operating expenses were incurred to acquire or produce the goods and services and carry out the Medical Center's

mission. Non-operating revenues and expenses result from activities other than providing goods and services. All changes in net assets were reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses were reported in the statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected patient receivables and earned but unused vacation leave). The utilization of capital assets was reflected in the Statement of Revenues, Expenses and Changes in Net Assets as depreciation and amortization expense which amortizes the cost of a long-lived asset over its expected useful life.

3. ***Statement of Cash Flows*** - The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period. This statement aids in the assessment of the Medical Center's ability to generate future net cash flows and to meet obligations and commitments as they come due. The primary source of operating cash flows was clinical service revenues received from patients and their insurance providers. Uses of these cash sources included payments to employees and fringe benefits and payments to suppliers and contractors for goods and services consumed.

4. ***Notes to the Financial Statements*** - The notes to the Financial Statements provide additional information that was essential for a complete understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 15-24 of this report.

Financial Highlights

- On July 9, 2010, the District acquired United Medical Center after foreclosing on the Medical Center's assets for non-payment of loans owed to the District. The District established the Not-for-Profit Hospital Corporation as a separate legal entity of the District government to receive the assets of the Medical Center (including land, buildings, equipment, furnishings and accounts) and operate the Medical Center until such time that a buyer is identified. Upon the purchase of the Medical Center, the District also assumed certain liabilities previously incurred by the hospital. The District simultaneously contributed the foreclosed assets and assumed liabilities to the Not-for-Profit Hospital Corporation. The fair market value of identifiable net assets acquired and transferred by the District to the Not-for-Profit Hospital Corporation was $48,128,251. For further discussion, see Note 1(a) in the notes to the basic financial statements.

- The Medical Center's total assets exceed its liabilities at September 30, 2010, by $49,520,516.
- The Medical Center's excess of revenues over expenses was $1,392,265 from July 9, 2010 (date of inception) to September 30, 2010.

Financial Analysis of the Medical Center as a Whole

The Balance Sheet provides the perspective of the Medical Center as a whole. The table below provides a summary of the Medical Center's total assets, liabilities and net assets as of September 30, 2010:

Condensed Balance Sheet

Assets:	
Current assets	$ 40,055,643
Non-current assets:	
Capital assets	61,469,572
Other assets	326,910
Total non-current assets	61,796,482
Total assets	101,852,125
Liabilities:	
Current liabilities	43,755,867
Non-current liabilities	8,575,742
Total liabilities	52,331,609
Net Assets:	
Unrestricted	$ 49,520,516

Over time, net assets can serve as a useful indicator of an organization's financial position. At September 30, 2010, the Medical Center's assets exceeded liabilities by $49.5 million.

Capital assets reported on the financial statements represent the largest portion of the Medical Center's assets. At year-end, capital assets represented 60.4% of total assets. Capital assets included land, land improvements, buildings, equipment, software, equipment under capital lease obligations and construction in progress. The Medical Center used these capital assets to provide medical care to citizens of the District of Columbia Wards 7 and 8 and the adjoining Prince Georges County, MD; consequently, these assets were not available for future spending.

The next largest portion of the Medical Center's assets was current assets. At year-end, current assets represented 39.3% of total assets and included cash resources that were subject to restriction on how they may be used. On July 12, 2010, the District of Columbia allocated $26 million from its Contingency Cash Reserve to provide appropriations authority for operating and funding the Medical Center. The funds provided would be repaid from patient revenues generated by the Medical Center during the period July 9, 2010 (date of inception) to September 30, 2010. On October 25, 2010, the Medical Center repaid $20 million to the District of Columbia Contingency Cash Reserve.

The Medical Center's net assets increased by $49.5 million during the period July 9, 2010 (date of inception) to September 30, 2010. The contribution of net assets provided by the District of Columbia represented 97.2% of the increase in net assets. The following table reflects the change in unrestricted nets assets for the period July 9, 2010 (date of inception) to September 30, 2010:

Change in Unrestricted Net Assets

Balance at July 9, 2010	$	—
Excess of revenues over expenses		1,392,265
Contribution of nets assets from the District of Columbia		48,128,251
Increase in net assets		49,520,516
Balance at September 30, 2010	$	49,520,516

The change in unrestricted net assets resulted from excess revenues generated from operating and non-operating activities, and the contribution of net assets from the District of Columbia for the period July 9, 2010 (date of inception) to September 30, 2010.

The following schedule presents condensed financial information from the Statement of Revenues, Expenses and Changes in Net Assets from July 9, 2010 (date of inception) to September 30, 2010:

Condensed Schedule of Revenues, Expenses and Changes in Net Assets

Revenues:	
Operating revenues:	
Net patient service revenue	$ 18,358,246
Other operating revenue	3,202,943
Total operating revenue	21,561,189
Nonoperating revenues:	
Investment income	94,043
Other nonoperating revenue	296,639
Total nonoperating revenue	390,682
Total revenues	21,951,871
Expenses:	
Operating expenses:	
Salaries and benefits	13,707,571
Depreciation and amortization	1,516,102
Other expense	5,335,933
Total operating expenses:	20,559,606
Excess of revenues over expenses	1,392,265
Contribution of net assets from the District of Columbia	48,128,251
Changes in net assets	49,520,516
Net assets beginning of period	—
Net assets end of period	$ 49,520,516

The Medical Center's total revenues were $21,951,871 during the period July 9, 2010 (date of inception) to September 30, 2010. Revenues from patient care services were 83.6% of total revenues.

The total cost of all programs and services was $20,559,606. Including the contribution of net assets from the District of Columbia, the Medical Center's net assets increased by $49,520,516 during the period July 9, 2010 (date of inception) to September 30, 2010.

Capital and Debt Administration

Capital Assets – The Medical Center's capital assets as of September 30, 2010 amount to $61,469,572 (net of accumulated depreciation and amortization). This investment in capital assets includes land, land improvements, buildings, equipment, software, equipment under capital lease obligations and construction in progress. The following table summarizes the Medical Center's capital assets net of accumulated depreciation and amortization at September 30, 2010:

Asset Category		Balance
Land	$	8,100,000
Land improvements		763,441
Buildings		41,632,732
Equipment		9,616,498
Equipment under capital lease obligations		1,183,309
Software		141,279
Construction in progress		32,313
Capital assets, net	$	61,469,572

See Notes 1 and 3 in the basic financial statements for additional disclosure on capital assets.

Long-term Debt – At September 30, 2010, the Medical Center had total long-term debt outstanding of $8.6 million. The following table summarizes the Medical Centers long-term debt which was presented in more detail in Note 4 of the basic financial statements:

Outstanding Debt		Balance
Chartered Health Plan not payable	$	46,474
Due to District of Columbia reserve fund		6,000,000
Capital lease obligations		958,715
Other liabilities		1,570,553
Total long-term debt	$	8,575,742

Economic Factors

On March 23, 2010, the President signed the Patient Protection and Affordable Care Act (the Act) intended to overhaul the nation's health care system and guarantee access to medical insurance for tens of millions of uninsured Americans. This is to be accomplished by requiring all taxpayers to have insurance, either employer provided or purchased from exchanges run by the states, expanding Medicaid coverage, providing subsidies in the form of tax credits, and eliminating pre-existing condition exceptions to coverage and annual or lifetime limits. In addition, the legislation extends coverage for children under the Children's Health Program and under employer provided coverage until age 26 as well as providing for preventive care and wellness programs. The regulations to implement this sweeping legislation are still being written and the Act will not be fully implemented until 2014, therefore the impact of this new legislation on the operations of the Medical Center cannot presently be determined.

Requests for Information

This financial report is designed to provide a general overview of the Medical Center's financial activities and to demonstrate the Medical Center's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

The Office of the Chief Financial Officer
United Medical Center
1310 Southern Avenue, S.E.
Washington, D.C., 20032
(202) 574-6611

NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Balance Sheet

September 30, 2010

Assets		
Current assets:		
Cash and cash equivalents (includes restricted cash of $19,606,581)	$	27,315,767
Accounts receivable, net of allowances for estimated uncollectibles of $4,074,411		9,372,303
Grant receivable		187,370
Inventories		978,832
Prepaid expenses and other assets		499,363
Due from Specialty Hospitals of Washington		1,702,008
Total current assets		40,055,643
Capital assets, net		61,469,572
Other noncurrent assets, net		326,910
Total assets	$	101,852,125
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	13,187,135
Accrued salaries and benefits		8,735,529
Due to District of Columbia		20,000,000
Current portion of note payable		503,969
Current portion of obligations under capital leases		448,723
Other liabilities		880,511
Total current liabilities		43,755,867
Note payable, net of current portion		46,474
Due to District of Columbia, net of current portion		6,000,000
Obligations under capital leases, net of current portion		958,715
Other long-term liabilities		1,570,553
Total liabilities		52,331,609
Net assets:		
Invested in capital assets, net of related debt		60,062,134
Unrestricted		(10,541,618)
Total net assets		49,520,516
Total liabilities and net assets	$	101,852,125

See accompanying notes to financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statement of Revenues, Expenses, and Changes in Net Assets
Period from July 9, 2010 (date of inception) to September 30, 2010

Operating revenues:		
Net patient service revenue (net of provision for bad debts of $4,074,411)	$	18,358,246
Grant revenues		3,202,943
Total operating revenues		21,561,189
Operating expenses:		
Salaries and wages		11,343,967
Employee benefits		2,363,604
Contract labor		292,827
Supplies		2,107,060
Professional fees		464,191
Purchased services		1,252,960
Depreciation and amortization		1,516,102
Utilities		229,995
Insurance		585,605
Rent and leases		209,425
Repairs and maintenance		120,059
Other expense		73,811
Total operating expenses		20,559,606
Operating income		1,001,583
Nonoperating revenues (expenses):		
Investment income		94,043
Other, net		296,639
Total nonoperating revenues		390,682
Excess of revenues over expenses		1,392,265
Contribution of net assets from the District of Columbia		48,128,251
Net assets, beginning of period		—
Net assets, end of period	$	49,520,516

See accompanying notes to financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statement of Changes in Net Assets
Period from July 9, 2010 (date of inception) to September 30, 2010

Balance at July 9, 2010	$	—
Excess of revenues over expenses		1,392,265
Contribution of net assets from the District of Columbia		48,128,251
Increase in net assets		49,520,516
Balance at September 30, 2010	$	49,520,516

See accompanying notes to financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statement of Cash Flows
Period from July 9, 2010 (date of inception) to September 30, 2010

Cash flows from operating activities:	
Receipts from and on behalf of patients	$ 20,902,423
Payments to employees and fringe benefits	(14,170,647)
Payments to suppliers and contractors	(7,331,485)
Other receipts and payments, net	2,387,001
Net cash provided by operating activities	1,787,292
Cash flows from investing activities:	
Receipts of interest	94,043
Net cash provided by investing activities	94,043
Cash flows from noncapital financing activities:	
Repayment of notes payable	(122,107)
Proceeds from District of Columbia	26,000,000
Net cash provided by noncapital financing activities	25,877,893
Cash flows from capital and related financing activities:	
Cash received in contribution from the District of Columbia	534,773
Repayment of capital lease obligations	(72,623)
Capital grants and contributions	296,639
Purchase of property, plant, and equipment	(1,202,250)
Net cash used in captial and related financing activities	(443,461)
Net increase in cash and cash equivalents	27,315,767
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	$ 27,315,767

See accompanying notes to financial statements.

NOT-FOR-PROFIT HOSPITAL CORPORATION
d/b/a UNITED MEDICAL CENTER
(A Component Unit of the District of Columbia)

Statement of Cash Flows
Period from July 9, 2010 (date of inception) to September 30, 2010

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,001,583
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization		1,516,102
Provision for bad debts		4,074,411
Changes in assets and liabilities:		
Increase in patient receivables and net third party payor settlements		(2,002,469)
Increase in grant receivable		(187,370)
Increase in inventories		(94,997)
Increase in prepaid expenses and other assets		(112,421)
Decrease in due from Specialty Hospital of Washington		495,515
Decrease in third party payor settlements		472,235
Decrease in accounts payable		(2,791,251)
Decrease in accrued salaries and benefits		(463,076)
Decrease in other liabilities		(120,970)
Net cash provided by operating activities	$	1,787,292

Noncash financing activities:
The Medical Center received $47,593,478 in contributed noncash net assets from the District of Columbia on July 9, 2010.

See accompanying notes to financial statements.

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

The Not-For-Profit Hospital Corporation, d/b/a United Medical Center (the Medical Center) is a 184-bed facility that serves as the primary community health care provider to the Southeast area of the District of Columbia (the District). The Medical Center provides inpatient, outpatient, psychiatric and emergency care services for residents of the District.

Between November 2007 and July 2010, the Medical Center was owned and operated by Specialty Hospitals of Washington – GSE Holdings, LLC, (Specialty) a for-profit corporation incorporated in the State of Delaware in 2007. During this period, the District provided approximately $95.9 million in direct and indirect funding to the Medical Center in the form of loans and grants. Despite this financial support provided by the District, the Medical Center's financial position and operational stability continued to deteriorate. The Medical Center was unable to pay its liabilities as they came due including its loan payments due to the District.

Consequently, the District foreclosed on the Medical Center's assets pursuant to a Deed of Trust, Security Agreement, Fixture Filing and Restrictive Covenants securing the District loans. The foreclosure auction occurred on July 9, 2010, and the District was the sole bidder to acquire the land, buildings, equipment, furnishings, and accounts of the Medical Center. The consideration given by the District was in the form of forgiveness of a portion of the outstanding working capital and acquisition loans owed to the District.

Upon the acquisition of the Medical Center, the Not-For-Profit Hospital Corporation (the Hospital Corporation) was created as an independent instrumentality of the District government. The primary purposes of the Hospital Corporation are to receive the land, improvements on the land, equipment, and other assets of the Medical Center, to operate and take all actions necessary to ensure the continued operations of the hospital; and to sell or otherwise transfer all or part of the hospital and site, when a buyer is identified.

The fair value of the assets acquired and liabilities assumed by the District upon foreclosure, were as follows:

Cash	$	534,773
Accounts receivable		11,444,245
Inventories		883,836
Due from Specialty		2,197,523
Capital assets		61,783,424
Other assets		1,134,929
Liabilities		(29,850,479)
Identifiable net assets acquired	$	48,128,251

Simultaneously with the foreclosure, the District made a capital contribution of these assets to the newly established Hospital Corporation.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement 34), established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted net assets. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted net assets* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net assets are either expendable or nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The accounting policies and practices of the Medical Center conform to U.S. generally accepted accounting principles applicable to a proprietary fund of a government Medical Center. The financial statement presentation and significant accounting policies adopted by the Medical Center conform to general practice within the healthcare industry, as published by the American Institute of Certified Public Accountants in its audit and accounting guide, *Health Care Entities*.

(b) Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. As permitted by GASB Statement No. 20, as amended, the Medical Center has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued prior to December 1, 1989.

(c) ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

(d) ***Cash and Cash Equivalents***

The Medical Center considers all highly liquid, temporary investments with original maturities of three months or less to be cash equivalents for purposes of the statement of Cash flows. Cash and cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. The Medical Center has not experienced such losses on these funds.

(e) ***Restricted Cash***

Restricted cash consists of funds made available by the District through its approved 2010 budget for funding the near-term operations of the Medical Center. These funds were made available to provide appropriations authority for funding the Medical Center's operations and are required to be repaid by September 30, 2011.

(f) ***Inventories***

Inventories, which primarily consist of medical supplies and pharmaceuticals, are valued at the lower of cost or market with cost determined mainly on the first-in-first-out basis.

(g) ***Revenue Recognition***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Variances between preliminary estimates of net patient service revenue and final third party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs.

Patient accounts receivable are recorded net of estimated contractual allowances and amounts estimated to be uncollectible. The total estimated allowance for contractual and doubtful accounts at September 30, 2010 was approximately $24,627,000.

(Continued)

(h) ***Fair Value of Financial Instruments***

The carrying amounts of the Medical Center's financial instruments, as reported in the accompanying balance sheet approximate their fair value.

(i) ***Capital Assets***

Contributed property, plant and equipment are reported at their estimated fair value at the date contributed to the Medical Center by the District. The cost of such assets and the related accumulated depreciation are removed from the accounts in the year the related asset is sold or retired and any profit or loss on disposition is recorded as other operating revenue/expense. Assets acquired through capital lease transactions are amortized over the lesser of term of the lease or the economic useful life of the asset. Such amortization is included in depreciation and amortization in the statement of operations.

The half-year depreciation convention is applied during the year in which the assets are acquired or disposed. All capital assets other than land are depreciated or amortized (in the case of capital leases) utilizing the straight-line method of depreciation over the following estimated useful lives of the assets:

Land improvements	5 – 25 years
Buildings and improvements	10 – 40 years
Building fixtures	5 – 20 years
Equipment	3 – 15 years
Computers	5 years
Software	3 – 10 years

(j) ***Estimated Malpractice Costs***

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(k) ***Charity Care***

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge and does not pursue collection of amounts determined to qualify as charity care. These amounts are not reported as revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. The criteria for charity service consider family income, net worth and eligibility at time of application. The amount of charges forgone for services and supplies furnished under the Medical Center's charity care policy were approximately $3.5 million for the period July 9, 2010 through September 30, 2010.

(l) ***Net Assets***

Unrestricted net assets are those whose use by the Medical Center is not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use by the Medical Center is subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Medical Center pursuant to those stipulations. Permanently restricted net assets are those whose use by the Medical Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Medical Center. Income from these assets can be unrestricted or restricted based on donor stipulations. Currently, the Medical Center does not have any temporarily restricted or permanently restricted net assets.

(m) Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all incurred to provide health care services, other than financing costs.

(n) Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage.

(o) Net Patient Service Revenue

The Medical Center has arrangements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare

Payments to the Medical Center from Medicare for inpatient acute services are made on a prospective basis. Under this program, payments are made at a predetermined specified rate for each discharge, based on a patient's diagnosis, weighted by an acuity factor. The Medical Center is paid a disproportionate share adjustment for serving certain low income patients. Outpatient services are paid at prospectively determined rates per procedure under a methodology which utilizes ambulatory payment classifications (APCs). Similar to the inpatient rates, outpatient rates vary according to the procedures performed. Other outpatient services are based on fee schedules. Sub-acute services are reimbursed on a prospective rate, based on a patient's level of acuity. Additional payments are made to the Medical Center for the cost of cases that have an unusually high cost in comparison to national averages. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

Medicaid

The Medical Center is paid by Medicaid based on diagnosis related groupings at a predetermined specified rate for each discharge, subject to a weight or acuity factor, based on a patient's diagnosis. Outpatient services are reimbursed based on a fixed-rate per visit basis determined by Medicaid. The Medical Center is also paid a disproportionate share adjustment for servicing certain low income patients.

Blue Cross and Other

The Medical Center also has entered into payment agreements with certain commercial insurance carriers such as Blue Cross, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily or procedure rates. The Blue Cross agreement contains a "most-favored nations" clause which means Blue Cross would reimburse the Medical Center at a rate that is lower than commercial third party payors.

(2) Accounts Receivable and Accounts Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and current liabilities by the Medical Center at September 30, 2010, consisted of these amounts:

Patient accounts receivable:	
Receivable from patients and their insurance carriers	$ 5,816,115
Receivable from Medicare	3,141,988
Receivable from Medicaid	4,488,611
Total patient accounts receivable	13,446,714
Less allowance for uncollectible amounts	4,074,411
Patient accounts receivable, net	$ 9,372,303
Accounts payable and accrued expenses:	
Payable to employees	$ 4,432,422
Payable to suppliers	13,187,135
Payable to payroll taxing authorities and others	4,303,107
Total accounts payable and accrued expenses:	$ 21,922,664

(3) Capital Assets

Property, plant and equipment additions, retirements, and balances for the period ended September 30, were as follows:

		Balance July 9, 2010	Additions	Retirements	Balance September 30, 2010
Land	$	—	8,100,000	—	8,100,000
Land improvements		—	800,000	—	800,000
Buildings		—	42,200,000	—	42,200,000
Equipment		—	10,108,455	—	10,108,455
Equipment under capital lease obligations		—	1,254,525	—	1,254,525
Software		—	490,381	—	490,381
Construction in progress		—	32,313	—	32,313
Total costs		—	62,985,674	—	62,985,674
Less accumulated depreciation and amortization		—	(1,516,102)	—	(1,516,102)
Capital assets, net	$	—	61,469,572	—	61,469,572

(4) Long-Term Debt and Other Noncurrent Liabilities

A schedule of the Medical Center's noncurrent liabilities at September 30, 2010 follows:

Chartered Health Plan note	$	46,474
Due to District of Columbia		6,000,000
Capital lease obligations		958,715
Other liabilities		1,570,553
Total noncurrent liabilities	$	8,575,742

Long-term Debt

The terms and due dates of the Medical Center's long-term debt, including capital lease obligations, at September 30, 2010 follows:

- 5.00% note payable, due November 2011, unsecured.
- Capital lease obligations, at varying rates of imputed interest from 1.40% to 5.25% collateralized by leased equipment valued at approximately $1.3 million at September 30, 2010.

Scheduled principal and interest repayments on long term debt and payments on capital lease obligations are as follows:

		Note payable		Capital lease obligations	
		Principal	Interest	Principal	Interest
Year ending September 30:					
2011	$	503,969	16,077	448,723	62,320
2012		46,474	208	356,397	41,773
2013		—	—	343,270	22,351
2014		—	—	153,095	8,424
2015		—	—	78,209	2,237
Thereafter		—	—	27,744	219
Total	$	550,443	16,285	1,407,438	137,324

(5) Commitments Under Noncancelable Operating Leases

The Medical Center is committed under various noncancelable operating leases, all of which are for equipment. The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2010, that have initial remaining lease terms in excess of one year:

2011	$	165,724
2012		161,269
2013		126,728
2014		113,880
2015		113,880
Total	$	681,481

(6) Transactions with Related Parties

On July 12, 2010, the District allocated $26 million from its Contingency Cash Reserve to provide appropriations authority for operating and funding Not-for-Profit Hospital Corporation. The funds provided to the Medical Center were to be repaid from patient revenues generated during the period July 9 through September 30, 2010.

The Medical Center receives payments from the District for services provided to Medicaid-eligible residents of the District. The Medical Center also receives grant funding for certain capital expenditure needs and to cover additional costs of providing services to certain at-risk populations of the District.

The following is a summary of related party transaction balances as of September 30, 2010:

Accounts receivable due from DC Medicaid	$	4,127,092
Grant receivable		187,370
Due to reserve fund		26,000,000
Net patient revenue - DC Medicaid	$	15,557,190
Other revenue - Safety net care grant		1,665,912

(7) Concentrations of Credit Risk

The Medical Center maintains cash and cash equivalent balances and securities at several financial institutions. The cash balance at each financial institution is insured under the Federal Deposit Insurance Corporation (FDIC) up to $250,000 and securities are insured up to $500,000 under Securities Investor Protection Corporation (SIPC). At times, the balances on deposit and securities will exceed the balance insured by the FDIC and SIPC, however, the Medical Center has not experienced any losses related to this concentration to date and believes it is not exposed to any significant credit risks.

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2010 is as follows:

Medicare	23%
Medicaid	33
HMO Medicare/Medicaid	32
HMO/PPO	6
Commercial/Other	3
Patients	3
	100%

(8) Commitments and Contingencies

Litigation Matters

The Medical Center is not a party to any legal proceedings, other than claims and lawsuits arising in the normal course of its business. Although the outcome of claims and lawsuits against the Medical Center cannot be accurately predicted, the Medical Center does not believe that any potential claims and lawsuits existing as of the date of this report, will individually or in the aggregate, have a material adverse effect on its business, financial condition, results of operations or cash flows.

Collective Bargaining Agreements

The Medical Center has several collective bargaining agreements currently in effect with unions representing certain employees. The agreement with the 1199 SEIU United Healthcare Workers East (SEIU) expires on April 30, 2012. The agreement with the District of Columbia Nurses Association (DCNA) expires on January 7, 2013. The agreement with International Union of Operating Engineers (IUOE) expires on September 30, 2011. The agreement with United Federation of Special Police and Security Officers Local 672 (UFSO) expires on September 30, 2012. 1199 SEIU members represent 40.6%, DCNA members represent 23.7%, IUOE members represent 1.7% and UFSO members represent 2.9% of the Medical Center's salaries and wages during 2010, respectively.

(9) Subsequent Events

Subsequent events have been evaluated by management through March 23, 2011, which is the date the financial statements were issued.

On October 1, 2010, a 120-bed skilled nursing facility (United Medical Nursing Center) opened on the 6th and 7th floors of the Medical Center. The skilled nursing unit will house chronically-ill, mostly elderly patients and provide long-term care, rehabilitation, and other services.

On October 25, 2010, the Medical Center returned $20 million to the District of Columbia contingency reserve fund, leaving a restricted cash balance of $6 million as of that date.